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TOBACCO CATEGORY LEADERSHIP

Our accounts are changing the way they do business. The traditional buyer is fading away and being replaced by younger, more aggressive personnel who are generally titled "Category Managers". Their responsibilities are simple--to increase profits within a specific category (a category can be considered frozen foods, health and beauty aids, front end, etc.). Because there are many different companies competing for merchandising dominance within chain calls, the Category Manager is searching for one individual from one company to provide expert, accurate information targeted to assist them with increasing profits. Currently, 15% of our accounts represent this demand for a preferred supplier or a "Category Leader".

Objective

Understand the definition of Category Leadership and be aware of the fact that chains are rapidly moving in this direction.

Realize that our competition understands this concept and is beginning to speak the language in presentations to accounts.

Understand the advantages of being chosen "Category Leader" by our accounts. (We get first choice opportunities).

Strategy

Provide category expertise. Identify what items make up the category.

Penetrate every function at the account. Know all the key players.

Make the buyer's life easier. Provide in-store information.

Maximize account's promotional monies.

Develop a "Win2 / Win2 approach. Discuss why we are both in business--to make a profit.

Recommended Action: Determine how your accounts are structured. Are they currently using a Category Manager structure or do they have plans to do so in the future? Ask your accounts "if choosing a Category Leader, what is important to them"?

51856 1303

INTRODUCTION TO ACCOUNT PENETRATION

Historically, when we ran into trouble within an account we went to the buyer's boss. We refer to this as vertical penetration. There are 4 major factors that are changing the decision-making process at chain headquarters that prevent us from "going to the boss". They are:

- 1) Decisions are increasingly risky and complex
- 2) Organizations are increasing in size and complexity
- 3) The people are better educated, younger, and hungrier to make a difference
- 4) The trend toward "profit centers" is creating "power centers"

For these reasons, power is no longer concentrated at the top. Decisions and ideas are generated at all levels.

Objective

Understand the need to penetrate accounts before a problem occurs

Understand the difference between decision makers and influencers

Understand how each account function (or position) can affect our initiatives

Strategy

Determine key wins of every function

Develop a category expert relationship with each function

Use different functions to drive different initiatives

Manage the relationship to your mutual benefit

Plan each contact carefully

Recommended Action: Given an identified initiative (i.e. selling an account a private label), identify the appropriate functions that would have to be contacted and determine if they can make the decision or influence the decision.

51856 1304

DISCOVERY

Every customer is unique and has his / her reasons for agreeing to your product or program. Category Leaders link the customer's needs and reasons for buying with their own objectives.(An example would be the customer's need for reduced pilferage linked with our objective to maintain self-service. This leads to ESS.) Tactical questioning introduced in this section will identify the customer's needs and reasons for buying. This type of questioning can be compared to PSS.

Objective

Understand the 4 types of tactical questions

- | | |
|----------------|--|
| 1) Issues | Broad stroke / sweeping |
| 2) Information | Focus or narrow the broad issue |
| 3) Importance | Measure customer attitudes, feelings, and opinions |
| 4) Interest | Determine willingness to take action |

Strategy

Follow the Flow of the conversation.

Actively listen.

Interview vs. Interrogation. Let the account know why you are there.

Use Pauses. This keeps us from interjecting our thoughts.

Recommended Action: Observe our Manager conducting a discovery interview. At the conclusion, ask if we understand the real needs of the individual or are we guessing based on prior contacts. Have we identified our customer's three most important priorities for the year?

51856 1305

POWER PENETRATION

Just as an organization is functionally organized, it also has a power organization. We all know of Regional Managers that are more powerful than others, Division Managers that have more power than others etc. Even though our accounts may be structured to have some key players in equal positions, some have more influence on decisions than others.

Objective

Understand the 4 types of power within organizations:

- | | |
|---------------|--|
| 1) Status | Based on organizational power |
| 2) Reward | Has ability to provide psychological, social or financial reward |
| 3) Attraction | Perceived as "on the move" |
| 4) Expert | Can say "no", rarely can say "yes" |

Strategy

Identify the various types of power within an account.

Use this knowledge to leverage our initiatives.

Identify a "Champion" within an account (someone who shares our goals and objectives on a particular decision).

Recommended Action: Write down the power bases of key functions within an account. Determine who could be our Champion in driving an initiative forward inside the account.

51856 1306

INTRODUCTION TO ACCOUNT BUSINESS PLANNING

The Account Business Planning process is multi functional and inter-active. It involves planning with the account as opposed to our traditional approach of planning for the account. **It is important to note that during our study to develop this course, our accounts focused on the need to plan with us more so than any other issue.**

Objective

Understand the need to plan with an account.

Realize that our objective is to drive profitable volume.

Strategy

Identify the needs of all parties involved in the process--the Account, Sales & Marketing.

Incorporate action steps which exceed common objectives.

Deliver a "road map" on how RJR and the account will manage their collective resources to attain mutual objectives.

Recommended Action: Determine if your accounts are willing to participate in an interactive planning process where the focus is concentrated on bottom line profits for both the account and RJR.

51856 1307

COMPONENTS

Components are the individual elements of the Business Plan and are selected based on the individual needs of the account. These are the areas you, along with the account, have determined will address your business concerns.

Objective

Know the 8 components that make up the business plan:

- 1) Account Specific Marketing
- 2) Merchandising
- 3) Retail Operations
- 4) Volume
- 5) Evaluation
- 6) Customer Service
- 7) Education
- 8) SKU Management

Of these 8, probably only two to three will be addressed during a typical meeting.

Strategy

Identify opportunities for development with your account using account penetration skills and discovery interviews.

Select the appropriate components based on those opportunities.

Recommended Action: Determine that the issues to be discussed during your account business planning meeting will actually address customer needs and wants.

51856 1308

BUSINESS PLANNING MODEL

The Business Planning Model is composed of eight steps in developing a successful business plan. The steps are:

- 1) Understand account issues
- 2) Develop market and customer profiles
- 3) Collect brand and category information
- 4) Develop initial business plan
- 5) Business planning meeting
- 6) Negotiate and finalize plan
- 7) Implement business plan
- 8) Monitor results and evaluate

Objective

Develop an account specific marketing program. What do both parties want to accomplish?

Create an ongoing, interactive planning process. This is not a one time meeting.

Identify mutual needs and opportunities.

Make optimum use of resources.

Improve program development flexibility.

Deliver profitable volume growth.

Strategy

Develop a "road map" that builds profitable category volume. This is a specific plan on how to increase profits.

Use category expanding initiatives and eliminate the one-size fits all approach.

Remain consistent with both RJR's and the account's long-term development strategies.

Recommended Action: As mentioned earlier, this is a mutually beneficial approach to maximizing both the account and RJR profits. Ensure the account is involved in all steps as well as RJR (ie. Scan data, shrink reports, communication to store level employees as to the importance of this project).

51856 1369

ACCOUNT BUSINESS PLANNING MEETINGS

This section involves the meetings themselves - who should attend, the elements of a successful meeting and how the agenda should be structured.

Objective

Identify RJR and account objectives for the meeting.

Determine meeting participants.

Identify administrative and follow-up procedures.

Strategy

Advise all participants of their roles, responsibilities, and objectives. This includes meeting participants from the account.

Develop a meeting outline that concentrates on the meeting objective.

Recommended Action: Review the meeting agenda to ensure our objectives will be met. Review participants to ensure everyone involved will have a role and is aware of their responsibilities.

51856 1310

Account Business Planning

Pre-Planning Questionnaire

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ACCOUNT OVERVIEW

1. What are your corporate objectives for the tobacco products category?

Volume

—
—
—

Profit

10. The following is a list of the names of the members of the Board of Directors of the Company.

Distribution

Other

10. The following table shows the number of hours worked by each employee.

2. Who in your organization is responsible for achieving these objectives?

51856 1312

Account Overview

Page Two

- 3. How do you evaluate your tobacco products category business?**

- 4. What do you feel are your company's three greatest strengths?**

1) _____

2) _____

3) _____

- 5. What do you feel are your company's three greatest opportunities?**

1) _____

2) _____

3) _____

- 6. What do you feel are R.J. Reynolds three greatest strengths?**

1) _____

2) _____

3) _____

51856 1313

Account Overview

Page Three

7. What do you feel are R.J. Reynolds three greatest opportunities as a company?

- 1) _____
- 2) _____
- 3) _____

8. What measurements of your business would you like to see from RJR on a regular basis?

Manufacturer Specific

Total Category Specific

9. Who do you consider to be your primary competitors?

Overall business: _____

Tobacco products: _____

51856 1314

Account Overview
Page Four

10. What are your primary needs from a supplier?

11. Who do you currently consider to be your preferred supplier in the tobacco products category and why?

12. What three things can RJR do today to make it easier to do business with us?

51856 1315

ACCOUNT DETAILS - DISTRIBUTION/SHELF/MERCHANDISING

1. What is your overall philosophy on managing the tobacco products section?

2. Who decides which new items are to be carried?

3. How does H.Q. alert stores to new/deleted items?

4. When are new items plan-o-grammed (timing, method, etc.)?

51856 1316

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Account Details - Distribution/Shelf/Merchandising

Page Two

5. What is your approach to these different merchandising vehicles for tobacco products?

- Checkout Merchandisers

- Self-Service Carton Merchandisers

- Self-Service Package Merchandisers

- Other

6. What steps are you taking on the issue of security?

7. How can RJR improve store deliveries? Retail merchandising?

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Account Details - Distribution/Shelf/Merchandising

Page Three

- 8. Which computerized space management system is utilized? Who manages this program?**

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ACCOUNT DETAILS - RETAIL OPERATIONS

1. What is your organization's structure for operations?

2. Does Operations have a regular meeting schedule? Do they allow manufacturer to participate?

3. How does the operation group communicate with the buying department?

4. What sales information is of value to the operations group?

5. How many district managers are there?

51856 1319

Account Details - Retail Operations

Page Two

6. How can a manufacturer aid the operations group?

7. What is the store policy on premium give-aways, in-store contests, etc., for aisle clerks and store managers?

8. How can the operations group influence in-store activity?

• Display

• Merchandisers

• Plan-o-grams

• Other

51856 1320

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ACCOUNT DETAILS - CATEGORY/MARKET

1. What is your class of trade's development trend in the marketplace?

2. What is the class of trade's category development trend and what are the implications for your business?

3. What is your perspective on general category trends, i.e., dollar growth outpacing unit growth, new item proliferation, emerging sub-category within category, age wave dynamics, environment issues, etc?

4. What is your perspective on the general market dynamics, i.e., accounts in L.B.O. situations, new competitors coming to town, old competitors switching tactics, declining/improving economy, etc?
